World Bank Guide for Green Bond Proceeds Management & Reporting
Agenda

• Introduction to format and housekeeping
• Objectives and World Bank role
• Initiatives to develop market transparency and guidelines
• World Bank Guide on Green Bond Proceeds Management and Reporting
• Q & A
• Wrap Up
Growth of the green bond market

IBRD has raised US$11 bn in 145 green bond transactions in 19 currencies.

Annual Green Bond Issuance By Issuer Type

Source: Bloomberg, World Bank and other public sources (July 31, 2018)
## Road Map for issuing green bonds

### Issuing a regular bond

1. Get rated
2. Get market intelligence on the currency, tenor and size you’re aiming at.
3. Decide on underwriters based on the above
4. Register with local regulator (i.e., securities and exchange commission)
5. Issue prospectus
6. Comfort Letter/Due Diligence (if applicable)
7. Roadshows and sales effort
8. Launch bond
9. Price and allocate bond
10. Communicate to the capital market
11. Monitor secondary market

### Issuing a green bond

1. Identify potential green projects
2. Develop Green Bond framework
   - Define green bond criteria and project selection process
   - Set up processes and controls for the use and management of proceeds
   - Define monitoring and reporting processes
3. Get an external review
4. Allocate proceeds to the projects
5. Monitor use of proceeds and projects
6. Undertake post-issuance audit
7. Publish impact report
World Bank technical assistance for green bond issuers

- Share international experience and best practices
- Help regulators develop Green Bond Guidelines or Regulations
- Help policy-makers consider incentives to support the development of a local green bond market
- Facilitate demonstration issuances by national or local governments by
  - Providing technical assistance on the green bond process
  - Developing a roadmap for the issuance
  - Developing a Green Bond Framework
  - Helping to identify eligible green projects
  - Facilitating the delivery of second opinions/verifications/certification of the Green Bond Framework by an independent third party reviewer
  - Advising on reporting commitment and communication strategy
  - Developing use of proceeds and impact report
Developing the green “sukuk” market in Malaysia

- On July 27, 2017, Tadau Energy Sdn Bhd issued the first green sukuk in the world to raise MYR250 million ($59 million) to finance a 50MW solar power plant in Malaysia.
- Four other green sukuk and a green bond have been issued in Malaysia since.
- Local rating agencies established a methodology for green sukuk rating.
- Large institutional investors incorporated ESG in their strategic asset allocation.
- Republic of Indonesia issued a sovereign green bond ($1.25 bn, February 2018).

World Bank Group support:

- Identified opportunity to leverage Malaysia’s role in Islamic finance to combine the “sukuk” and the green bond.
- Undertook diagnostic assessment for feasibility.
- Awareness campaign with line ministries; financial intermediaries; banks; institutional investors; rating agencies; and potential issuers.
- Capacity building for local green bond/sukuk certifiers.
- Technical assistance to issuers for the issuance of sukuk.
First sovereign green bond by an emerging market: Fiji

Date of issuance: November 1, 2017

Aggregate size: F$100m ($50 million equivalent)

First tranche: $40 million equivalent

Investors:
- Domestic commercial banks
- Institutional investors

Second tranche: $20 million

Third tranche $26.62 million

Final tranche $13.38 million

(listed on London Stock Exchange on April 18, 2018)

External Reviewer: Sustainalytics
(Second party opinion)

Use of Proceeds: Sustainable management of natural resources, renewable energy, water and energy efficiency, clean and resilient transport and waste water management

World Bank Group support:
- Established a high-level green bond steering committee
- Developed the green bond framework
- Helped identify eligible projects
- Provided guidance on reporting and impact indicators
- Facilitated external review
- Currently the World Bank is providing technical assistance to help Fiji develop its post-issuance impact report
Common questions in the minds of issuers

- Why would I issue a green bond? What’s in it for me?
- What qualifies as green?
- Who will buy these bonds?
- Where do I start?
- Which standard should I follow?
- How do I disclose refinanced projects?
- How do I segregate the green bond proceeds?
- How long do I have to report the flow of funds?
- How are other issuers doing this?
- How long do I have to report the flow of funds?
- Will all this be very expensive?
- Which indicators do I use to monitor and disclose impact?
- Who should lead – Treasury or Environment?
- Do I have to disclose the flow of funds on a project by project basis?
- Does the green bond account need to be audited?
Challenges of reporting

1. Lack of a standardized procedure
2. Lack of knowledge about environmental reporting
3. Limited resources
4. Lack of coordination between Treasuries and operational units or project owners overseeing or closer to the investments
5. Inconsistent use of metrics
6. Project owners may not be collecting environment-related information systematically
7. Some data may be confidential
Objectives:
1. Clarify the processes issuers can follow
2. Ensure transparency and consistency
3. Promote similarity in reporting and allow investors to compare the impact of their investments across issuers

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Looking back: 
Journey towards harmonized reporting

World Bank collaborates with MDBs and others for reporting and frameworks that set standards for issuers and investors to understand and report on the social impact value of investment, in addition to financial terms.

**Harmonized reporting:**

- **Joint Report on MDBs’ climate finance:**
  Annual collaborative effort to make public since 2011, MDB climate finance figures for developing and emerging economies, together with a clear explanation of the methodologies for tracking this finance.

- **Harmonized impact report for investors:**
  World Bank convened informal working group on impact reporting in 2014 that lead to the first harmonized framework for impact reporting used by the World Bank and other issuers. This work was expanded by EIB, and now ICMA hosts the impact working group lead by EBRD and KfW.
Increased momentum: National, regional and global initiatives

- Green Bond Principles and Social Bond Principles (ICMA GBP and SBP)
- World Bank-UNEP Roadmap for a Sustainable Financial System
- EU Commission's High-Level Expert Group on Sustainable Finance (EU HLEG)
- FSB Task Force on Climate-Related Financial Disclosures (FSB TCFD)
- Network for the Greening of the Financial Sector (NGFS)
- Prince Charles’ Accounting for Sustainability (A4S)
- Global Green Finance Leadership Program (GFLP)
- Sustainable Banking Network (SBN)
- Sustainable Stock Exchanges
- G20 Sustainable Finance Study Group

- Focus on urgency and reporting, transparency, harmonized information, and data and standards
Looking forward: Focus on environment, social and governance factors for all investments

- ESG and project impact data is a big focus for all investors. Green bonds are a catalyst for ESG and sustainable investing. World Bank’s Green Bond Proceeds Management & Reporting Guide provides standardized framework for Public Sector Issuers.

- Investors are increasingly incorporating environmental, social and governance (ESG) criteria in all their investment decisions, and starting to use the Sustainable Development Goals (SDGs) as a framework for reporting to show impact.

- The World Bank (IBRD) issues USD 50 billion per year in AAA/Aaa-rated bonds to finance sustainable development. Bonds issued by organizations like the World Bank are a natural fit for investors integrating ESG criteria in their investment process and looking for impact.

- 2018 GPIF/World Bank Group joint research report highlighted solutions for integrating sustainability considerations into fixed income portfolios.
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Methodology

1. Based on the Green Bond Principles

2. Builds on the Harmonized Framework for Impact Reporting using hypothetical portfolio

3. Client focused: Questionnaire to public sector issuers in Fiji, Indonesia and Malaysia

4. Feedback from international green bond investors

5. Based on the World Bank Green Bond Impact Report
Green Bond Principles

**Use of Proceeds**

Green bond proceeds are to be applied for environmental (or “green”) projects with an indicative list of eligible project categories. Refinancing is allowed and recommends disclosing share of refinancing and look-back period for refinanced projects.

**Process for project evaluation and selection**

Recommends issuers to disclose their overall sustainability objectives, the process used to determine eligibility of green projects, and the process to manage environmental and social risks of these projects. Recommends an issuer’s process for project evaluation and selection be supplemented by an external review.

**Management of proceeds**

The net proceeds of the Green Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer’s lending and investment operations for Green Projects.

**Reporting**

Recommends annual reporting of the amounts allocated and results of the eligible green projects until “full allocation, and as necessary thereafter in the event of material developments”. Use of qualitative and, when feasible, quantitative performance measures/indicators.

Management of Proceeds

Option 1:
Separate Green Account (The issuer creates a separate bank account to deposit the bond proceeds)

Option 2:
Sub-Account (The issuer credits the green bond proceeds to a general account where all other funding is deposited, but simultaneously sets a green subaccount to transfer funds only when the green projects require funding.)

Option 3:
Virtual Green Account /Cash Account (The actual transfers to the projects take place through the issuer’s own financial management system, with the virtual green account reconciling equivalent debits to the original bond amount.)
**Figure 1**

**Disbursement/Expenditure for Eligible Projects (Figures in Thousands USD)**

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Approved Amount</th>
<th>Actual Disbursements Y1</th>
<th>Actual Disbursements Y2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Solar Farm</td>
<td>4,000</td>
<td>300</td>
<td>1,000</td>
</tr>
<tr>
<td>Wind Farm</td>
<td>5,000</td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>Industrial Efficiency</td>
<td>5,000</td>
<td>500</td>
<td>400</td>
</tr>
<tr>
<td>Lighting Efficiency</td>
<td>3,000</td>
<td>300</td>
<td>700</td>
</tr>
<tr>
<td>Mass Transit</td>
<td>10,000</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Light Train</td>
<td>15,000</td>
<td>1,500</td>
<td>2,000</td>
</tr>
<tr>
<td>Sustainable Agriculture</td>
<td>3,000</td>
<td>300</td>
<td>700</td>
</tr>
<tr>
<td>Afforestation</td>
<td>4,000</td>
<td>400</td>
<td>800</td>
</tr>
<tr>
<td>Waste Management</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>Water Management</td>
<td>4,000</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>Coastal Protection</td>
<td>3,000</td>
<td>500</td>
<td>700</td>
</tr>
<tr>
<td>Flood Disaster Prevention</td>
<td>2,000</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60,000</strong></td>
<td><strong>11,400</strong></td>
<td><strong>9,000</strong></td>
</tr>
</tbody>
</table>
Virtual Approach (hypothetical portfolio)

**Figure 2 • Green Bond Ledger Account (Figures in Thousands USD)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Credit</th>
<th>Debit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1st, 2018</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y1-Q1</td>
<td></td>
<td>11,400</td>
<td>48,600</td>
</tr>
<tr>
<td>Y1-Q2</td>
<td></td>
<td>9,000</td>
<td>39,600</td>
</tr>
<tr>
<td>Y1-Q3</td>
<td></td>
<td>11,300</td>
<td>28,300</td>
</tr>
<tr>
<td>Y1-Q4</td>
<td></td>
<td>10,300</td>
<td>18,000</td>
</tr>
<tr>
<td>Y2-Q1</td>
<td></td>
<td>6,600</td>
<td>11,400</td>
</tr>
<tr>
<td>Y2-Q2</td>
<td></td>
<td>4,900</td>
<td>6,500</td>
</tr>
<tr>
<td>Y2-Q3</td>
<td></td>
<td>3,800</td>
<td>2,700</td>
</tr>
<tr>
<td>Y2-Q4</td>
<td></td>
<td>2,700</td>
<td>0</td>
</tr>
</tbody>
</table>
Recommended Approach: Impact Reporting

- Use existing reporting systems and build up to fully detailed quantitative reporting.

- Base impact reporting on the expected environmental impact (ex-ante) of the projects and update as more information becomes available.

- Report until the bond matures or until the green projects are completed, whichever is latest.

- Report on a project-by-project basis, where feasible. Where not feasible – for confidentiality reasons; large number of underlying projects – report on a sector or portfolio.
## Project-by-Project Reporting Template

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project #</th>
<th>Name</th>
<th>Eligible Amount</th>
<th>Allocated Amount to Date in Thousands USD</th>
<th>% Disbursed</th>
<th>Goals and Key Beneficiaries</th>
<th>Project Lifetime (years)</th>
<th>Capacity or Coverage</th>
<th>Units</th>
<th>Expected Production or Improvement from Baseline</th>
<th>Units</th>
<th>Emissions Reduced Tons of CO₂ equiv.</th>
<th>Progress to Date</th>
<th>Notes (below)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector: Energy</strong></td>
<td>1</td>
<td>Solar Farm</td>
<td>4,000</td>
<td>3,300</td>
<td>83%</td>
<td>Replace diesel in industrial park</td>
<td>20</td>
<td>20</td>
<td>MW</td>
<td>22,434</td>
<td>GWh</td>
<td>10,800,000</td>
<td>80%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Wind Farm</td>
<td>5,000</td>
<td>2,900</td>
<td>58%</td>
<td>Supply power to off-grid community of 15,000</td>
<td>20</td>
<td>30</td>
<td>MW</td>
<td>14,821</td>
<td>GWh</td>
<td>7,114,000</td>
<td>40%</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Industrial Efficiency</td>
<td>5,000</td>
<td>2,900</td>
<td>58%</td>
<td>Provide loans for energy efficiency</td>
<td>15</td>
<td>50</td>
<td>Industries</td>
<td>5,000,000</td>
<td>MWh</td>
<td>1,517,000</td>
<td>50%</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Lighting Efficiency</td>
<td>3,000</td>
<td>3,000</td>
<td>100%</td>
<td>Replace inefficient street lamps in city XYZ</td>
<td>15</td>
<td>15000</td>
<td>Streetlamps</td>
<td>21,000</td>
<td>MWh</td>
<td>10,080</td>
<td>100%</td>
<td>4</td>
</tr>
<tr>
<td><strong>Sector: Transportation</strong></td>
<td>5</td>
<td>Mass Transit</td>
<td>10,000</td>
<td>6,000</td>
<td>60%</td>
<td>Exclusive bus lanes (3), stations, and traffic management</td>
<td>30</td>
<td>20</td>
<td>Kilometers</td>
<td>50,000</td>
<td>n/a</td>
<td>New riders (15% increase)</td>
<td>50%</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Light Rail</td>
<td>15,000</td>
<td>9,500</td>
<td>63%</td>
<td>Completion of last 30 Kms of light train</td>
<td>30</td>
<td>30</td>
<td>Kilometers</td>
<td>200,000</td>
<td>n/a</td>
<td>New riders (10% increase)</td>
<td>20%</td>
<td>6</td>
</tr>
<tr>
<td><strong>Sector: Land Use</strong></td>
<td>7</td>
<td>Sustainable Agriculture</td>
<td>3,000</td>
<td>2,600</td>
<td>87%</td>
<td>Soil and water retention works; materials to 20,000 farmers</td>
<td>20</td>
<td>35,000</td>
<td>Hectares</td>
<td>15%</td>
<td>Crop yield</td>
<td>n/a</td>
<td>80%</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Afforestation</td>
<td>4,000</td>
<td>2,800</td>
<td>70%</td>
<td>Replant native trees and shrubs restoring soil; 2000 farmers</td>
<td>25</td>
<td>200,000</td>
<td>Hectares</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>70%</td>
<td>8</td>
</tr>
<tr>
<td><strong>Sector: Other</strong></td>
<td>9</td>
<td>Waste Management</td>
<td>2,000</td>
<td>2,000</td>
<td>100%</td>
<td>Refinanced Upgrade landfills for biogas capture and use in near-by industry</td>
<td>15</td>
<td>3</td>
<td>landfills</td>
<td>Landfill Gas</td>
<td>4,000,000</td>
<td>100,000</td>
<td>100% Completed 1 year ago</td>
<td>9</td>
</tr>
</tbody>
</table>
## Reporting Template (cont.)

<table>
<thead>
<tr>
<th>Project #</th>
<th>Name</th>
<th>Eligible Amount</th>
<th>Allocated Amount to Date in Thousands USD</th>
<th>% Disbursed</th>
<th>Goals and Key Beneficiaries</th>
<th>Project Lifetime (years)</th>
<th>Capacity or Coverage</th>
<th>Units</th>
<th>Expected Production or Improvement from Baseline</th>
<th>Units</th>
<th>Emissions Reduced Tons of CO₂ equiv.</th>
<th>Progress to Date</th>
<th>Notes (below)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Water Efficiency</td>
<td>4,000</td>
<td>4,000</td>
<td>100%</td>
<td>Upgrade water treatment to reduce losses and reuse biogas</td>
<td>15</td>
<td>1 Plant</td>
<td></td>
<td>4 m3/sec</td>
<td>2,000</td>
<td></td>
<td>100% Completed 1.5 years ago</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Coastal Protection</td>
<td>3,000</td>
<td>2,200</td>
<td>73%</td>
<td>Replanting program to reduce damage from storms; 1,000 in community</td>
<td>20</td>
<td>800 Hectares</td>
<td></td>
<td>800 Hectares</td>
<td>n/a</td>
<td></td>
<td>75%</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Flood Disaster Prevention</td>
<td>2,000</td>
<td>800</td>
<td>40%</td>
<td>Improve drainage and reduce erosion in flood prone areas inhabited by 20,000 people</td>
<td>20</td>
<td>5,000 Hectares</td>
<td></td>
<td>5,000 Hectares</td>
<td>n/a</td>
<td></td>
<td>30%</td>
<td>12</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>60,000</strong></td>
<td><strong>42,000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTES:**
1. Assumes that 1 GW produces 1,122 GWh of electricity using the world average ratio of solar photovoltaic electricity capacity to production in 2015, i.e., 220.2 GW produced 247 TWh (IEA 2017). For emissions, estimate assumes an average world emission factor of 480 grams of CO₂ eq. per kWh of electricity produced based on World Bank 2014.
2. Assumes that 1 GW produces 494 GWh using the world average ratio of wind electricity capacity and production in 2015, i.e., 414 GW produced 838 TWh (IEA 2017). For emissions, the estimate assumes an average world emission factor of 480 grams of CO₂ eq. per kWh of electricity produced (World Bank 2014).
3. Assumes an emissions factor for industry of 303 grams of CO₂ eq. per MWh, i.e., each MWh saved reduces 303 grams of CO₂.
4. Assumes replacement with LED lamps achieving 50% electricity savings in the order of magnitude reported in World Bank 2016. For emissions, the estimate assumes an average world emission factor of 480 grams of CO₂ eq. per kWh of electricity produced (World Bank 2014).
5. Reduction of CO₂ emissions by Bus Rapid Transport projects can be simulated. Refer to TEEMP models available from https://www.itdp.org/ and GEF 2011.
6. The simulation of emissions reductions in light rail and other transport projects is complex. For relevant literature, see GEF 2011 and 2015.
7. In addition to improving crop yield and increasing water use efficiency, sustainable agriculture projects may contribute to reducing GHG emissions. See references section.
8. Afforestation contributes to carbon sinks and reduces soil erosion. See references section.
9. Landfills assumed to be retrofitted to capture landfill gas for use in nearby industries. The figures are not based on real projects.
10. Wastewater treatment plant assumed to be retrofitted to avoid discharges to nearby waterway and to capture methane emissions.
11. Coastal protection is assumed to include replanting of mangroves, sea grasses and other species to restore nature’s ability to mitigate the impact of severe weather events.
12. Structural risk prevention assumed to improve conditions in an area of 5,000 hectares.
<table>
<thead>
<tr>
<th>Sector: Energy</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable Energy and Efficiency</td>
<td>17,000 (100%)</td>
<td>12,100</td>
<td>71%</td>
<td>20 MW solar and wind capacity built; efficiency investments in 50 industries; efficient streetlamps in city XYZ.</td>
<td>60% overall</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector: Transportation</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transit Systems</td>
<td>25,000 (100%)</td>
<td>15,500</td>
<td>62%</td>
<td>Construction of segregated bus lanes, passenger stations, and light rail</td>
<td>40% overall</td>
<td></td>
</tr>
</tbody>
</table>

| Sector: Land Use |  |  |  |  |  |
|-----------------|---|---|---|---|
| Sustainable Agriculture and Afforestation | 7,000 (100%) | 5,400 | 77% | 35,000 hectares total farmland improved and 200,000 hectares reforested | 75% overall |

| Sector: Other |  |  |  |  |
|---------------|---|---|---|
| Waste and Water Management and Climate Adaptation | 11,000 (100%) | 9,000 | 82% | biogas capture and use; water efficiency; coastal protection; and flood prevention investments | Includes refinanced projects; rest 50% completed |

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60,000</td>
<td>42,000</td>
</tr>
</tbody>
</table>

Note: The above projects are hypothetical. The figures are hypothetical and may not reflect correct orders of magnitude in the relevant sectors.
Conventions for Reporting

• Report on the basis of the share of the project’s total investment cost that the issuer has financed with green bonds

• Report impact based on amounts disbursed and outstanding to a project (as opposed to amounts committed)

• Reference methodologies used for metrics and limitations in data where applicable; add notes on assumptions

• Include social benefits where possible:
  • qualitative description of the communities or population being targeted and,
  • include as indicator number of people benefiting from the project when feasible
Contact Us

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- Wrap Up
## Acknowledgements and Disclaimers

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